

## **Fiduciary Income Tax Questions**

For tax years beginning January 1, 2003 and later, the Arizona laws relating to the income taxation of estates and trusts are changed. The Arizona income tax treatment now conforms to the federal income tax treatment. The new law also defines resident and nonresident trusts.

### **What is an Arizona resident trust?**

A resident trust is a trust of which the fiduciary is a resident of Arizona. If the trust has more than one fiduciary, the trust is a resident trust if a least one of the fiduciaries is a resident of Arizona. If a corporate fiduciary engaged in interstate trust administration is the sole fiduciary of a trust, or is a cofiduciary with a nonresident, the trust is a resident trust only if the corporate fiduciary conducts the administration of the trust in Arizona.

### **What is a nonresident trust?**

A nonresident trust is a trust that is not a resident trust.

### **What is an Arizona resident estate?**

An Arizona resident estate is the estate of a decedent who was a resident of Arizona at the time of death.

### **What is a nonresident estate?**

A nonresident estate is an estate that is not a resident estate.

### **What is the filing requirement for a fiduciary income tax return (Arizona Form 141AZ)?**

For taxable year 2003, the fiduciary must file a return if an estate or trust has income subject to Arizona tax, when any of the following apply:

1. The estate's Arizona taxable income for the tax year is \$1,000 or more.
2. The trust's Arizona taxable income for the tax year is \$100 or more.
3. The estate's or trust's gross income for the tax year is \$5,000 or more, regardless of the amount of the taxable income.

For taxable year 2004, the fiduciary must file a return if an estate or trust has income subject to Arizona tax, when any of the following apply:

1. The estate or trust has Arizona taxable income for the tax year.

2. The estate's or trust's gross income for the tax year is \$5,000 or more, regardless of the amount of the taxable income.

**What is the starting point for the Arizona income tax return of a resident estate or trust?**

The starting point for the Arizona income tax return is the Arizona gross income. For a resident trust, this is the trust's federal taxable income computed under the Internal Revenue Code (I.R.C.). For a resident estate, this is the estate's federal taxable income computed under the I.R.C.

**What is the starting point for the Arizona income tax return of a nonresident estate or trust?**

Again, the starting point for the Arizona income tax return is the Arizona gross income. For a nonresident trust, this is that portion of the trust's federal taxable income (computed under the I.R.C.) derived from Arizona sources. For a nonresident estate, this is that portion of the estate's federal taxable income (computed under the I.R.C.) derived from Arizona sources.

**How does an estate or trust compute its Arizona taxable income?**

The fiduciary begins the Arizona return (Form 141AZ) with the trust's or estate's Arizona gross income. The fiduciary then computes a fiduciary adjustment. This is comprised of items that either increase or decrease Arizona gross income. Items that increase Arizona gross income are additions to income required under Arizona law. Items that decrease Arizona gross income are subtractions from income required under Arizona law. The fiduciary allocates the adjustment between the beneficiaries and the trust or estate. If the amount of adjustment allocated to the trust or estate is a positive number, that amount is added to Arizona gross income. If the amount allocated to the trust or estate is a negative number, that amount is subtracted from Arizona gross income. If the trust or estate included income from a medical savings account established under Arizona law in Arizona gross income, that amount is also subtracted. The result is the trust's or estate's Arizona taxable income. This is the amount on which Arizona tax is computed.

**How does the trust or estate allocate the fiduciary adjustment?**

The Arizona fiduciary adjustment is divided among the beneficiaries and the fiduciary in proportion to their share of the federal distributable net income. The fiduciary uses Schedule C of Form 141AZ to determine the allocation of the shares of the Arizona fiduciary adjustment.

If there is no federal distributable net income, each beneficiary's share of the Arizona fiduciary adjustment shall be in proportion to each share of the estate or trust income distributed. Any balance of the Arizona fiduciary adjustment not

allocated to the beneficiaries is allocable to the fiduciary.

### **What credits if any apply to the Form 141AZ?**

The only credit that applies to Form 141AZ is the credit for taxes paid to other states or countries. If both Arizona and another state or country consider an estate or trust to be a resident, Arizona will allow the estate or trust a tax credit against the Arizona income tax liability for taxes paid to the other state or country.

For the purpose of this credit, Arizona considers an estate or trust to be a resident of the state or country legally entitled to tax the income of the estate or trust regardless of whether the estate or trust derives income from sources in that state or country.

The credit allowed on the Arizona fiduciary return is subject to the following conditions:

1. The credit is allowed only for the proportion of the taxes paid to the other state or country that the income taxable to Arizona and also subject to tax in the other state or country bears to the entire income on which the taxes paid to the other state or country are imposed.
2. The credit cannot exceed the proportion of the tax payable to Arizona that the income subject to tax in the other state or country and also taxable to Arizona bears to the entire income that is taxable to Arizona.
3. The credit is not allowed for taxes paid to the other state or country on income from sources within Arizona.

### **What items does the fiduciary report to Arizona resident beneficiaries?**

The fiduciary must report the beneficiary's share of the fiduciary adjustment to the beneficiary. The fiduciary uses Form 141AZ, Schedule K-1 for this purpose.

### **What items does the fiduciary report to Arizona nonresident beneficiaries?**

The fiduciary must report the beneficiary's share of federal distributable net income from Arizona sources and any share of the fiduciary adjustment related to Arizona source income allocated to the beneficiary. The fiduciary uses Form 141AZ, Schedule K-1(NR) for this purpose.

### **Must the Schedule K-1s be attached to the 141AZ?**

Yes, the fiduciary must attach copies of all Form 141AZ K-1s to Form 141AZ when filed.

**Can a Form 141AZ be part of a composite return?**

No, Form 141AZ cannot be part of a composite return.

**Can a fiduciary file a composite Arizona income tax return on behalf of its nonresident individual beneficiaries?**

No.

**For Form 210 Assumption of Duties, do I need to provide a court appointed document?**

If a court appointed personal representative is submitting the Form 210, a copy of the court appointment is required.